



*"Working together to  
fund Washington's future"*

# Tax Structure Work Group

Dean Carlson, Department of Revenue  
Valerie Torres, Department of Revenue

**House Finance Committee**

**December 1, 2020**

# Tax Structure Work Group

- The current Tax Structure Work Group (Work Group) was created in the 2019 operating budget – ESHB 1109
- The Work Group builds off the “Gates” study in 2002 and the tax structure public discussions conducted by the House of Representatives in the 2017-19 biennium
- The Work Group is staffed by the Department of Revenue with the help of consultants and a technical advisory group.
- The consultants are charged with writing the preliminary and final reports; making the modeling data done by DOR to be able to be consumed by the public and the legislature; and to coordinate, facilitate and compile the stakeholder feedback.

# Work Group Membership

Nine voting members:

- a. Two members from each of the two largest caucuses of both the Senate and the House
- b. One member representing the Office of the Governor

Three non-voting members:

- a. One representative of the Department of Revenue
- b. One representative of the Association of Washington Cities
- c. One representative of the Washington State Association of Counties

A chair or chair(s) to be selected from the legislative members.

# Tax Structure Work Group Members

| Name                                        | Organization                |
|---------------------------------------------|-----------------------------|
| Representative Noel Frame, Co-Chair         | House Democratic Caucus     |
| Senator Keith Wagoner, Co-Chair             | Senate Republican Caucus    |
| Representative Pat Sullivan                 | House Democratic Caucus     |
| Representative Ed Orcutt                    | House Republican Caucus     |
| Representative Jesse Young                  | House Republican Caucus     |
| Senator Joe Nguyen                          | Senate Democratic Caucus    |
| Senator Lisa Wellman                        | Senate Democratic Caucus    |
| Scott Merriman, Legislative Liaison         | Office Financial Management |
| Dean Carlson, Senior Tax Policy Coordinator | Department of Revenue       |
| Anne McEnerny-Ogle                          | Mayor of Vancouver          |
| Derek Young                                 | Pierce County Councilmember |

# Work Group Responsibilities

| Date                   | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| By December 1, 2019    | Hold initial meeting to elect chair(s) and conduct other business                                                                                                                                                                                                                                                                                                                                                                                                                               |
| By December 31, 2020   | Preliminary report of findings and alternatives from DOR's Modeling                                                                                                                                                                                                                                                                                                                                                                                                                             |
| By May 1, 2021         | <ul style="list-style-type: none"> <li>• Hold no less than one meeting in Olympia to review summary report,</li> <li>• Hold no less than one meeting to engage stakeholders,</li> <li>• Present the summary report, in accordance with RCW 43.01.036, to the appropriate committees of the legislature, and</li> <li>• Finalize logistics of stakeholder engagement.</li> </ul>                                                                                                                 |
| After the 2021 session | <ul style="list-style-type: none"> <li>• Hold no less than five meetings in geographically dispersed areas of the state</li> <li>• Utilize methods to compile stakeholder feedback before, during and after the meetings.</li> <li>• Broadcast the dates and locations for meetings.</li> <li>• Summarize the feedback that taxpayers and other stakeholders provided and submit a final report, in accordance with RCW 43.01.036, to the appropriate committees of the legislature.</li> </ul> |

# Department of Revenue Responsibilities

---

## **Washington State Tax Structure Study Committee Report submitted in 2002**

---

Update the data and research that informed recommendations and other analysis.

Estimate how much revenue all of the revenue replacement alternatives in the report would have generated for the 2017-19 Biennium if implemented on January 1, 2003.

Estimate the tax rates necessary to implement all of the recommended revenue replacement alternatives in order to achieve the actual revenues generated during the 2017-19 Biennium.

Estimate the impact on taxpayers, including:

- Tax paid as a share of household income for various income levels, and
- Tax paid as a share of total business revenue for various business activities.

# Department of Revenue Responsibilities

## Recommendations from the 2018 Tax Structure Work Group Final Report

### B&O Tax:

For Business and Occupation (B&O) Tax, conduct economic modeling or comparable analysis of replacing the B&O tax with an alternative such as:

- (a) Corporate income tax, or
- (b) Margins tax

Estimate the impact on taxpayers, such as tax paid as a share of total business revenue for various business activities. Assume the same revenues generated by B&O taxes during the 2017-19 Biennium.

### Property Tax:

Estimate how much revenue would have been generated for the 2017-19 Biennium if the 1 percent revenue growth limit on regular property taxes was replaced with a limit based on population growth and inflation if the state had implemented this alternative on January 1, 2003.

# Department of Revenue Responsibilities

## **Analyze Washington's Economic Competitiveness**

Estimate the revenue that would have been generated during the 2017-19 Biennium had Washington adopted the tax structure of our border states.

For border state tax structure estimates, estimate the impact on taxpayers, including:

- Tax paid as a share of household income for various income levels, and
- Tax paid as a share of total business revenue for various business activities.

Provide comparisons of the effective state and local tax rate of the tax structure during the 2017-19 Biennium and various alternatives under consideration compared to:

- Other states.
- Federal government, including considering implications of recent changes to federal law.



# Department of Revenue Responsibilities

## **Additional Analysis**

To the degree practicable, conduct tax incidence analysis of the various alternatives under consideration to account for the impacts of tax shifting, such as:

- Business taxes passed along to consumers, and
- Property taxes passed along to renters.

To the degree practicable, present findings and alternatives by geographic area, in addition to statewide.

Conduct other analysis as directed by the work group.

# Taxes to be Modeled

| <b>Current Tax Structure</b>      | <b>Tax Alternatives</b>           |
|-----------------------------------|-----------------------------------|
| Business and occupation (B&O) tax | Personal income tax               |
| Sales tax                         | Corporate income/net receipts tax |
| Property tax                      | Value-added tax                   |
| Real Estate Excise Tax            | Capital gains tax                 |

# Tax Structure Work Group Meetings

## December 3<sup>rd</sup>, 2019 Meeting

- Selection of co-chairs
- Overview of the Work Group proviso
- Update of Department of Revenue's work
- Update on technical advisory group

# Tax Structure Work Group Meetings, cont'd

## April 2, 2020 Meeting

- Local Tax Revenue Overview
  - *Overview of local government tax revenue sources*
- City Revenues
  - *Candice Bock, Association of Washington Cities*
  - *Overview of city revenue sources*
- County Revenues/Expenditures
  - *Eric Johnson, Washington State Association of Counties*
  - *Overview of county revenue sources*

# Tax Structure Work Group Meetings, cont'd

## July 17<sup>th</sup>, 2020 Meeting

- Taxation of Digital Products
  - *Overview of historic and current taxation of digital products*
- Overview of Imposing Sales Tax on Services
  - *Overview of historic and current imposition of sales tax on services*
  - *Overview of DOR's service model*
- Perspective of Extending Sales Tax to Services
  - *Joe Crosby, CEO Multistate provided a prospective of extending the sales tax to services*
- Value-Added Tax
  - *Overview of the value-added tax and comparison with corporate income tax and gross receipts tax.*

# Tax Structure Work Group Meetings, cont'd

## October 9th, 2020 Meeting

- Property tax 101
  - *Overview of historic and current taxation of digital products*
- Property Tax on Intangibles
  - *Overview of historic and current imposition of property tax on intangible property*
- School Finance in Washington State
  - *Presentation by House and Senate fiscal staff on school financing pre and post HB2242 (McCleary legislation)*
- Comments from the Different Associations Related to Education

# Tax Structure Work Group Meetings, cont'd

## December 4th, 2020 Meeting

- Review of Budget Proviso Key Research Questions & Tax Advisory Group (TAG) Work
- Technical Modeling Presentations – Overview of all the modeling that has been done for the preliminary report
- Washington State Tax Economic Competitiveness – A review of the work that has been done to date with comparisons of Washington, Oregon, and Idaho.
- Brief review of TSWG preliminary report (will be released by December 31<sup>st</sup> 2020)

# Tax Structure Work Group Listening Sessions

- Five 2-hour listening sessions held during the fall
- The topic of the listening sessions were current Washington State taxes and the pros and cons of each taking into account the principles of good taxation policy.
- The five subject areas of the listening sessions were:
  - Retail Sales and Use Tax
  - Business and Occupation and Public Utility Taxes
  - Estate Tax
  - Property Tax
  - Selective Sales Taxes (Sin Taxes, Real Estate Excise Tax, Gas Tax others)
- The Consultant is preparing a synopsis of the results of the feedback.



# Next Steps

- December 4<sup>th</sup> - Public meeting conducted over zoom
- December 31<sup>st</sup> – The preliminary report containing all of the modeling and comparisons that have been done is due. This information will be used to inform the stakeholder engagement.
- Creation of a tax comparison tool – The consultants will create a tool, fed by the recent modeling, that individuals and businesses will be able to compare the different tax options.
- Stakeholder engagement – Following the 2021 session, the formal stakeholder engagement process will begin.

# Department of Revenue Modeling

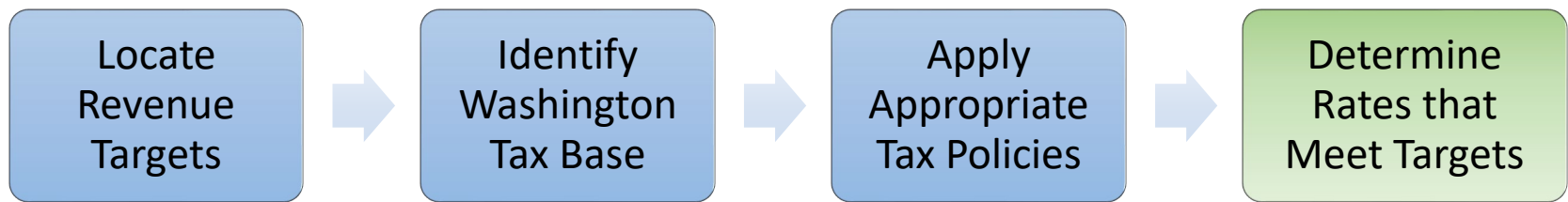
- Emphasized technical modeling
- DOR's approach to modeling resources
  - Modeling Team Members
  - Technical Advisory Group
  - Interagency Agreement – Western Washington University
- Conducted research on other responsibilities
  - Property tax
  - OR/ID tax structure

# Technical Advisory Group

- The Department created a technical advisory group to provide advice and assistance with analyzing and modeling taxes not currently part of Washington's tax structure:
  - Personal Income Taxes
  - Corporate Income/Net Receipt Taxes
  - Value-Added Taxes
  - Household Burden

|                       |                                                                          |
|-----------------------|--------------------------------------------------------------------------|
| Katie Baird           | University of Washington Tacoma                                          |
| Douglas Conrad, PhD   | Professor Emeritus at the University of Washington                       |
| Lucy Dadayan          | Urban Institute                                                          |
| Robert Hamilton       | Washington State Department of Commerce                                  |
| Rachelle Harris       | House Finance Committee                                                  |
| Hart Hodges PhD       | Center for Economic and Business Research, Western Washington University |
| D. Patrick Jones, PhD | Eastern Washington University                                            |
| Sharon Kioko, PhD     | Evans School of Public Policy and Governance                             |
| Mike Nelson           | Washington Society of Certified Public Accountants                       |
| Steve Lerch, PhD      | Economic and Revenue Forecast Council                                    |
| James McCafferty, PhD | Center for Economic and Business Research, Western Washington University |
| Jeff Mitchell         | Senate Ways and Means Committee                                          |
| Andy Nicholas         | Washington State Budget & Policy Center                                  |
| Pete Parcels, PhD     | Economics Professor at Whitman College                                   |
| Rick Peterson         | Retired                                                                  |
| Kriss Sjoblom         | Washington Research Council                                              |
| Nick Tucker           | House Finance Committee                                                  |

# Modeling Approach



## **Current Washington Taxes**

- Business and Occupation Taxes
- Retail Sales tax
- Property Tax
- Real Estate Excise Tax
- Public Utility Taxes

## **Potential Options for Change**

- Corporate Income / Net Receipts
- Value Added Tax
- Margin's Tax
- Personal Income Tax

## **Comparisons**

- Household Tax Burden
- Tax Alternative Model

# How the public can stay informed

See the webpage here:

<https://dor.wa.gov/about/tax-structure-work-group>

On this page we provide:

- An overview of the Tax Structure Work Group,
- Work Group membership,
- Information on upcoming meetings, and
- An opportunity to stay informed through a listserv.

# Questions?

